

SENIOR HOUSING PROPERTIES TRUST
Form 10-Q
November 01, 2010

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

FORM 10-Q

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2010

OR

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Commission File Number 1-15319

SENIOR HOUSING PROPERTIES TRUST

(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State or Other Jurisdiction of Incorporation or
Organization)

04-3445278
(IRS Employer Identification No.)

400 Centre Street, Newton, Massachusetts 02458

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(Address of Principal Executive Offices) (Zip Code)

617-796-8350

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large Accelerated Filer ☒

Accelerated Filer ☐

Non-Accelerated Filer ☐
(Do not check if a smaller reporting company)

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Number of registrant's common shares outstanding as of November 1, 2010: 127,479,657.

SENIOR HOUSING PROPERTIES TRUST

FORM 10-Q

September 30, 2010

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In this Quarterly Report on Form 10-Q, the terms "the Company", "we", "us" and "our" refer to Senior Housing Properties Trust and its consolidated subsidiaries, unless otherwise noted.

PART I. Financial Information**Item 1. Financial Statements.**

SENIOR HOUSING PROPERTIES TRUST
CONDENSED CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

(unaudited)

	September 30, 2010	December 31, 2009
<u>ASSETS</u>		
Real estate properties:		
Land	\$ 371,662	\$ 365,576
Buildings and improvements	3,006,956	2,952,407
	3,378,618	3,317,983
Less accumulated depreciation	516,860	454,317
	2,861,758	2,863,666
Cash and cash equivalents	8,513	10,494
Restricted cash	5,363	4,222
Deferred financing fees, net	15,985	14,882
Acquired real estate leases, net	44,743	42,769
Other assets	63,350	51,893
Total assets	\$ 2,999,712	\$ 2,987,926
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Unsecured revolving credit facility	\$ 12,000	\$ 60,000
Senior unsecured notes due 2012, 2015 and 2020, net of discount	422,794	322,160
Secured debt and capital leases	656,223	660,059
Accrued interest	13,358	13,693
Acquired real estate lease obligations, net	9,404	9,687
Other liabilities	33,161	21,677
Total liabilities	1,146,940	1,087,276
Commitments and contingencies		
Shareholders' equity:		
Common shares of beneficial interest, \$0.01 par value: 149,700,000 shares authorized, 127,479,657 and 127,377,665 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively	1,275	1,273
Additional paid in capital	2,228,520	2,226,474
Cumulative net income	722,654	640,033
Cumulative distributions	(1,106,700)	(969,111)
Unrealized gain on investments	7,023	1,981
Total shareholders' equity	1,852,772	1,900,650
Total liabilities and shareholders' equity	\$ 2,999,712	\$ 2,987,926

See accompanying notes.

SENIOR HOUSING PROPERTIES TRUST

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(amounts in thousands, except per share data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Rental income	\$ 80,961	\$ 72,010	\$ 242,173	\$ 209,785
Expenses:				
Depreciation	22,505	19,689	67,139	56,713
General and administrative	5,549	5,192	16,463	14,999
Property operating expenses	4,595	4,112	13,114	10,286
Acquisition related costs	286	517	725	1,911
Total expenses	32,935	29,510	97,441	83,909
Operating income	48,026	42,500	144,732	125,876
Interest and other income	203	355	703	750
Interest expense	(20,226)	(15,949)	(59,155)	(37,432)
Loss on early extinguishment of debt			(2,433)	
Impairment of assets		(11,249)	(1,095)	(11,249)
Gain on sale of properties	109		109	
Equity in earnings (losses) of an investee	35	(23)	(17)	(132)
Income before income tax expense	28,147	15,634	82,844	77,813
Income tax expense	(69)	(69)	(223)	(204)
Net income	\$ 28,078	\$ 15,565	\$ 82,621	\$ 77,609
Weighted average shares outstanding	127,423	121,665	127,404	120,005
Net income per share	\$ 0.22	\$ 0.13	\$ 0.65	\$ 0.65

See accompanying notes.

SENIOR HOUSING PROPERTIES TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 82,621	\$ 77,609
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	67,139	56,713
Amortization of deferred financing fees and debt discounts	1,847	1,809
Amortization of acquired real estate leases	755	712
Loss on early extinguishment of debt	2,433	
Impairment of assets	1,095	11,249
Gain on sale of properties	(109)	
Equity in losses of an investee	17	132
Change in assets and liabilities:		
Restricted cash	(1,141)	(384)
Other assets	(6,444)	(6,580)
Accrued interest	(335)	(227)
Other liabilities	13,533	19,506
Cash provided by operating activities	161,411	160,539
Cash flows from investing activities:		
Acquisitions	(68,136)	(423,866)
Investment in Five Star Quality Care, Inc.		(8,960)
Investment in Affiliates Insurance Company	(75)	(5,110)
Proceeds from sale of properties	1,450	3,171
Cash used for investing activities	(66,761)	(434,765)
Cash flows from financing activities:		
Proceeds from issuance of common shares, net		223,974
Proceeds from issuance of unsecured senior notes, net	195,352	
Proceeds from borrowings on revolving credit facility	45,000	134,000
Repayments of borrowings on revolving credit facility	(93,000)	(391,000)
Proceeds from issuance of mortgage debt		512,934
Redemption of senior notes	(98,780)	
Repayment of other debt	(6,293)	(2,234)
Payment of deferred financing fees	(1,321)	(11,335)
Distributions to shareholders	(137,589)	(125,616)
Cash (used for) provided by financing activities	(96,631)	340,723
(Decrease) increase in cash and cash equivalents	(1,981)	66,497
Cash and cash equivalents at beginning of period	10,494	5,990
Cash and cash equivalents at end of period	\$ 8,513	\$ 72,487
Supplemental cash flow information:		
Interest paid	\$ 57,643	\$ 35,850

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Non-cash investing activities:

Acquisitions funded by assumed debt	(2,458)
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Non-cash financing activities:

Assumption of mortgage notes payable	2,458	
Issuance of common shares	2,048	1,763

See accompanying notes.

SENIOR HOUSING PROPERTIES TRUST

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(dollar amounts in thousands, except per share data or as otherwise stated)

Note 1. Basis of Presentation

The accompanying condensed consolidated financial statements of Senior Housing Properties Trust and its subsidiaries, or we, us, or our, have been prepared without audit. Certain information and disclosures required by U.S. generally accepted accounting principles, or GAAP, for complete financial statements have been condensed or omitted. We believe the disclosures made are adequate to make the information presented not misleading. However, the accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes contained in our Annual Report on Form 10-K for the year ended December 31, 2009, or our Annual Report. In the opinion of our management, all adjustments, which include only normal recurring adjustments, considered necessary for a fair presentation have been included. All intercompany transactions and balances between us and our consolidated subsidiaries have been eliminated. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year. Reclassifications have been made to the prior year's financial statements to conform to the current year's presentation. These reclassifications were made to separately state on our condensed consolidated statements of income our (i) equity in earnings (losses) of an investee and (ii) income tax expense, which were both previously included in general and administrative expenses. These reclassifications had no effect on net income or shareholders' equity.

Note 2. Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board, or FASB, issued an accounting standards update requiring additional disclosures regarding fair value measurements. The update requires entities to disclose additional information regarding assets and liabilities that are transferred between levels within the fair value hierarchy. The update also clarifies the level of disaggregation at which fair value disclosures should be made and the requirements to disclose information about the valuation techniques and inputs used in estimating Level 2 and Level 3 fair values. The update is effective for interim and annual reporting periods beginning after December 15, 2009 except for the requirement to separately disclose purchases, sales, issuances and settlements in the Level 3 roll forward that becomes effective for fiscal periods beginning after December 15, 2010.

In February 2010, the FASB issued an update to the disclosure requirements relating to subsequent events to exclude the requirement to disclose the date through which an entity has evaluated subsequent events and whether that date represents the date the financial statements were issued or available to be issued.

The adoption of these updates did not, and is not expected to, cause any material changes to the disclosures in our condensed consolidated financial statements.

Note 3. Real Estate Properties

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At September 30, 2010, we owned 298 properties located in 35 states and Washington, D.C.

In August 2010, we sold four skilled nursing facilities in Nebraska with an aggregate 196 licensed beds for an aggregate sales price of \$1,450. We recognized a gain on sale of these properties of approximately \$109. These properties were leased to Five Star Quality Care, Inc., or Five Star.

In September 2010, we acquired one medical office building, or MOB, with 64,860 square feet located in Buffalo Grove (Chicago), IL for approximately \$18,400, excluding closing costs. We recorded intangible lease assets of approximately \$3,144 related to this acquisition. This property is 88% leased to seven tenants for weighted (by rents) average lease term of approximately 7.5 years. We funded this acquisition using cash on hand.

SENIOR HOUSING PROPERTIES TRUST

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(dollar amounts in thousands, except per share data or as otherwise stated)

In September 2010, we acquired another MOB with 38,030 square feet located in Conyers (Atlanta), GA for approximately \$9,800, excluding closing costs. We recorded intangible lease assets and liabilities of approximately \$1,428 and \$164, respectively, related to this acquisition. This property is 91% leased to seven tenants for weighted (by rents) average lease term of approximately 8.3 years. We funded this acquisition using cash on hand and borrowings under our revolving credit facility.

Subsequent to September 30, 2010, we acquired one MOB with 58,605 square feet located in Conroe (Houston), TX for approximately \$15,000, excluding closing costs. This property is 100% leased to Montgomery County Management Company, LLC for approximately 13.8 years. We funded this acquisition using cash on hand and borrowings under our revolving credit facility.

During the three and nine months ended September 30, 2010, pursuant to the terms of our existing leases with Five Star, we purchased \$7,958 and \$23,768, respectively, of improvements made to our properties leased to Five Star, and, as a result, the annual rent payable to us by Five Star was increased by approximately \$638 and \$1,905, respectively.

As of September 30, 2010, two of our properties are classified as held for sale located in Pennsylvania with an aggregate 173 licensed units. These two properties are operated and leased by Five Star. These two properties are included in real estate properties on our condensed consolidated balance sheets and have a net carrying value of approximately \$1,900 at September 30, 2010.

We periodically evaluate our properties for impairment. Impairment indicators may include declining tenant occupancy, weak or declining tenant profitability, cash flow or liquidity, our decision to dispose of an asset before the end of its estimated useful life and legislative, market or industry changes that could permanently reduce the value of a property. If indicators of impairment are present, we evaluate the carrying value of the effected property by comparing it to the expected future undiscounted cash flows to be generated from that property. If the sum of these expected future cash flows is less than the carrying value, we reduce the net carrying value of the property to its estimated fair value. During the nine months ended September 30, 2010, we recorded impairment of assets charges of \$1,095 to reduce the carrying value of five of our properties to their estimated sales price less costs to sell.

Note 4. Unrealized Gain on Investments

On September 30, 2010, we owned 250,000 common shares of Commonwealth REIT, or CWH, and 3,235,000 common shares of Five Star, which are carried at fair market value in other assets on our condensed consolidated balance sheets. The net unrealized gain on investments shown on our condensed consolidated balance sheets represents the difference between the value at quoted market prices of our CWH and Five Star shares on September 30, 2010 (\$25.60 and \$5.05 per share, respectively) and our weighted average costs on the dates we acquired these shares (\$26.00 and \$2.85 per share, respectively).

Note 5. Indebtedness

Our principal debt obligations at September 30, 2010 were our unsecured revolving credit facility, two public issues of unsecured senior notes totaling \$422,794 and \$641,562 of mortgages secured by 62 of our properties. These 62 collateralized properties had a carrying value of \$738,459 at September 30, 2010. We also have two properties recorded under capital leases totaling \$14,662 at September 30, 2010. These two properties had a carrying value of \$18,516 at September 30, 2010.

SENIOR HOUSING PROPERTIES TRUST

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(dollar amounts in thousands, except per share data or as otherwise stated)

We have an unsecured revolving credit facility that matures on December 31, 2010. Our revolving credit facility permits borrowings up to \$550,000. The interest rate for amounts drawn under the facility is LIBOR plus a premium. We can borrow, repay and reborrow until maturity, and no principal repayment is due until maturity. The interest rate payable on borrowings under this revolving credit facility was 1.1% at September 30, 2010 and 2009. In addition to interest, we pay certain fees to maintain this credit facility and we amortize certain arrangement costs. Our revolving credit facility is available for acquisitions, working capital and general business purposes. As of September 30, 2010 and 2009, we had \$12,000 and zero amounts, respectively, outstanding under this credit facility and \$538,000 and \$550,000, respectively, available under this credit facility. We currently intend to exercise our option to extend the maturity date of this facility to December 31, 2011. Our revolving credit facility contains financial covenants and requires us to maintain financial ratios and a minimum net worth. We believe we were in compliance with these covenants during the periods presented.

In April 2010, we sold \$200,000 of senior unsecured notes. The notes require interest at a fixed rate of 6.75% per annum and are due in 2020. Net proceeds from the sale of the notes, after underwriting discounts and before other expenses, were approximately \$195,352. We incurred approximately \$400 of additional third party costs that are deferred and amortized over the term of the debt. Interest on the notes is payable semi-annually in arrears. No principal payments are due until maturity. We used a portion of the net proceeds of this offering to repay \$58,000 in borrowings under our revolving credit facility, to fund the redemption of all \$97,500 of our outstanding 7.875% senior notes due 2015 and for general business purposes, including funding the acquisitions described in Note 3 above.

As described above, in April 2010, we called all of our outstanding 7.875% senior notes due 2015 for redemption on May 17, 2010. As a result of this redemption, we recorded a loss on early extinguishment of debt of \$2,433 consisting of the debt prepayment premium of approximately \$1,280 and the write off of unamortized deferred financing fees and debt discount of approximately \$1,153.

Note 6. Shareholders' Equity

On August 12, 2010, we paid a \$0.36 per share, or \$45,869, distribution to our common shareholders for the quarter ended June 30, 2010. On October 4, 2010, we declared a distribution of \$0.37 per share, or \$47,167, to be paid to common shareholders of record on October 15, 2010, with respect to our results for the quarter ended September 30, 2010. We expect to pay this distribution on or about November 12, 2010. On November 16, 2009, we paid a \$0.36 per share, or \$45,856, distribution to our common shareholders for the quarter ended September 30, 2009.

On September 17, 2010, pursuant to our equity compensation plan, we granted an aggregate of 66,850 common shares of beneficial interest, par value \$0.01 per share, valued at \$24.31 per share, the closing price of our common shares on the New York Stock Exchange, or the NYSE, on that day, to our officers and certain employees of our manager, Reit Management & Research LLC, or RMR. We made these grants pursuant to an exemption from registration contained in Section 4(2) of the Securities Act of 1933, as amended, or the Securities Act.

Note 7. Comprehensive Income

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The following is a reconciliation of net income to comprehensive income for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income	\$ 28,078	\$ 15,565	\$ 82,621	\$ 77,609
Other comprehensive income:				
Change in net unrealized gain on investments	6,757	6,273	5,042	6,977
Comprehensive income	\$ 34,835	\$ 21,838	\$ 87,663	\$ 84,586

SENIOR HOUSING PROPERTIES TRUST

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(dollar amounts in thousands, except per share data or as otherwise stated)

Note 8. Fair Value of Assets and Liabilities

The table below presents certain of our assets and liabilities measured at fair value at September 30, 2010 categorized by the level of inputs used in the valuation of each asset or liability.

Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets held for sale (1)	\$ 1,900	\$	\$ 1,900	\$
Investments in available for sale securities				
(2)	22,737	22,737		
Senior notes (3)	444,125		444,125	

(1) Assets held for sale consist of two of our properties that we expect to sell that are reported at fair value. We used offers to purchase the properties made by third parties or comparable sales transactions (level 2 inputs) to determine the fair value of these properties. We have recorded cumulative impairments of approximately \$9,051 to these properties in order to reduce their carrying value to fair value, or \$1,900, at September 30, 2010.

(2) Our investments in available for sale securities include our 250,000 common shares of CWH and 3,235,000 common shares of Five Star. The fair values of these shares are based on quoted prices at September 30, 2010 in active markets (level 1 inputs).

(3) We estimate the fair values of our senior notes by using an average of their bid and ask prices (level 2 inputs). As of September 30, 2010, the carrying value of our senior notes was \$422,794.

In addition to the assets and liabilities described in the above table, our financial instruments include rents receivable, cash and cash equivalents, restricted cash, secured and unsecured debt and other liabilities. The fair values of these additional financial instruments approximate their carrying values at September 30, 2010 based upon their liquidity, short term maturity and / or variable rate pricing.

Note 9. Segment Reporting

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We have two reportable operating segments: (i) short term and long term residential care facilities that offer dining for residents and (ii) properties where medical related activities occur but where residential overnight stays or dining services are not provided, or MOB. Properties in the short term and long term residential care facilities segment include independent living facilities, assisted living facilities, skilled nursing facilities and rehabilitation hospitals. Properties in the MOB segment include medical office, clinic and biotech laboratory buildings. The All Other category in the following table includes amounts related to corporate business activities and the operating results of certain properties that offer fitness, wellness and spa services to members.

SENIOR HOUSING PROPERTIES TRUST

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(dollar amounts in thousands, except per share data or as otherwise stated)

For the Three Months Ended September 30, 2010				
	Short and Long Term Residential Care Facilities	MOB	All Other	Consolidated
Rental income	\$ 57,315	\$ 19,743	\$ 3,903	\$ 80,961
Expenses:				
Depreciation expense	16,597	4,986	922	22,505
General and administrative			5,549	5,549
Property operating expenses		4,595		4,595
Acquisition related costs		286		286
Total expenses	16,597	9,867	6,471	32,935
Operating income (loss)	40,718	9,876	(2,568)	48,026
Interest and other income			203	203
Interest expense	(10,574)	(234)	(9,418)	(20,226)
Gain on sale of properties	109			109
Equity in earnings of an investee			35	35
Income (loss) before income tax expense	30,253	9,642	(11,748)	28,147
Income tax expense			(69)	(69)
Net income (loss)	\$ 30,253	\$ 9,642	\$ (11,817)	\$ 28,078
Total assets	\$ 1,933,822	\$ 776,126	\$ 289,764	\$ 2,999,712

SENIOR HOUSING PROPERTIES TRUST

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(dollar amounts in thousands, except per share data or as otherwise stated)

For the Three Months Ended September 30, 2009

	Short and Long Term Residential Care Facilities	MOB	All Other	Consolidated
Rental income	\$ 54,401	\$ 13,706	\$ 3,903	\$ 72,010
Expenses:				
Depreciation expense	15,348	3,419	922	19,689
General and administrative			5,192	5,192
Property operating expenses		4,112		4,112
Acquisition related costs		517		517
Total expenses	15,348	8,048	6,114	29,510
Operating income (loss)	39,053	5,658	(2,211)	42,500
Interest and other income			355	355
Interest expense	(7,475)	(185)	(8,289)	(15,949)
Impairment of assets	(3,784)	(7,465)		(11,249)
Equity in losses of an investee			(23)	(23)
Income (loss) before income tax expense	27,794	(1,992)	(10,168)	15,634
Income tax expense			(69)	(69)
Net income (loss)	\$ 27,794	\$ (1,992)	\$ (10,237)	\$ 15,565
Total assets	\$ 1,866,832	\$ 746,218	\$ 341,986	\$ 2,955,036

SENIOR HOUSING PROPERTIES TRUST

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(dollar amounts in thousands, except per share data or as otherwise stated)

For the Nine Months Ended September 30, 2010

	Short and Long Term Residential Care Facilities	MOB	All Other	Consolidated
Rental income	\$ 171,479	\$ 58,986	\$ 11,708	\$ 242,173
Expenses:				
Depreciation expense	49,640	14,762	2,737	67,139
General and administrative			16,463	16,463
Property operating expenses		13,114		13,114
Acquisition related costs	20	705		725
Total expenses	49,660	28,581	19,200	97,441
Operating income (loss)	121,819	30,405	(7,492)	144,732
Interest and other income			703	703
Interest expense	(31,304)	(636)	(27,215)	(59,155)
Loss on early extinguishment of debt			(2,433)	(2,433)
Impairment of assets	(1,095)			(1,095)
Gain on sale of properties	109			109
Equity in losses of an investee			(17)	(17)
Income (loss) before income tax expense	89,529	29,769	(36,454)	82,844
Income tax expense			(223)	(223)
Net income (loss)	\$ 89,529	\$ 29,769	\$ (36,677)	\$ 82,621
Total assets	\$ 1,933,822	\$ 776,126	\$ 289,764	\$ 2,999,712

SENIOR HOUSING PROPERTIES TRUST

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(dollar amounts in thousands, except per share data or as otherwise stated)

For the Nine Months Ended September 30, 2009

	Short and Long Term Residential Care Facilities	MOB	All Other	Consolidated
Rental income	\$ 162,920	\$ 35,157	\$ 11,708	\$ 209,785
Expenses:				
Depreciation expense	45,203	8,743	2,767	56,713
General and administrative			14,999	14,999
Property operating expenses		10,286		10,286
Acquisition related costs		1,911		1,911
Total expenses	45,203	20,940	17,766	83,909
Operating income (loss)	117,717	14,217	(6,058)	125,876
Interest and other income			750	750
Interest expense	(11,544)	(560)	(25,328)	(37,432)
Impairment of assets	(3,784)	(7,465)		(11,249)
Equity in losses of an investee			(132)	(132)
Income (loss) before income tax expense	102,389	6,192	(30,768)	77,813
Income tax expense			(204)	(204)
Net income (loss)	\$ 102,389	\$ 6,192	\$ (30,972)	\$ 77,609
Total assets	\$ 1,866,832	\$ 746,218	\$ 341,986	\$ 2,955,036

Note 10. Significant Tenant

Rent from Five Star is 56% of our total rents as of September 30, 2010. The following tables present summary financial information for Five Star for the three and nine months ended September 30, 2010 and 2009, as reported in its Quarterly Report on Form 10-Q.

Summary Financial Information of Five Star Quality Care, Inc.

(unaudited)

For the Three Months Ended September 30,
2010 2009

Operations		
Total revenues	\$ 315,060	\$ 295,304
Operating income	5,754	1,441
Income from continuing operations	5,610	4,411
Net income	5,158	4,108

SENIOR HOUSING PROPERTIES TRUST

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(dollar amounts in thousands, except per share data or as otherwise stated)

	For the Nine Months Ended	
	September 30,	
	2010	2009
Total revenues	\$ 935,272	\$ 882,450
Operating income	19,312	9,386
Income from continuing operations	18,226	38,935
Net income	17,396	38,058
Cash Flows		
Cash provided by operating activities	109,997	32,845
Net cash (used in) provided by discontinued operations	(830)	275
Cash used in investing activities	(25,972)	(15,956)
Cash used in financing activities	(51,503)	(11,790)
Change in cash and cash equivalents	31,692	5,374
Cash and cash equivalents at beginning of period	5,017	16,138
Cash and cash equivalents at end of period	36,709	21,512

	As of September 30,	
	2010	2009
Financial Position		
Current assets	\$ 136,575	\$ 195,763
Non-current assets	251,116	223,825
Total indebtedness	48,922	103,725
Current liabilities	141,019	180,054
Non-current liabilities	87,332	101,199
Total shareholders' equity	159,340	138,335

The summary financial information of Five Star is presented to comply with applicable accounting regulations of the Securities and Exchange Commission, or SEC. References in these financial statements to the Quarterly Report on Form 10-Q for Five Star are included as textual references only, and the information in Five Star's Quarterly Report is not incorporated by reference into these financial statements.

Note 11. Related Person Transactions

Five Star is our largest tenant and it is our former subsidiary. We beneficially own more than 9% of Five Star's common shares. RMR provides management services to both us and Five Star. Five Star pays us minimum rent amounts plus percentage rent based on increases in gross revenues at certain properties. As of September 30, 2010, we leased 186 senior living communities and two rehabilitation hospitals to Five Star. Five Star's total minimum annual rent payable to us under those leases as of September 30, 2010 was \$186,137, excluding percentage rent based on increases in gross revenues at certain properties. We recognized rent from Five Star in the amount of \$138,698 and \$130,429 for the nine months ended September 30, 2010 and 2009, respectively, and as of September 30, 2010 and December 31, 2009, our rents receivable from Five Star were \$16,573 and \$16,468, respectively, and are included in other assets on our condensed consolidated balance sheets. During the three and nine months ended September 30, 2010, pursuant to the terms of our existing leases with Five Star, we purchased \$7,958 and \$23,768, respectively, of improvements made to our properties leased to Five Star, and, as a result, the annual rent payable to us by Five Star was

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increased by approximately \$638 and \$1,905, respectively. In August 2010, we sold four skilled nursing facilities located in Nebraska with an aggregate 196 licensed beds for \$1,450 that were leased to Five Star and recognized a gain on sale of approximately \$109.

SENIOR HOUSING PROPERTIES TRUST

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(dollar amounts in thousands, except per share data or as otherwise stated)

In connection with our business management agreement with RMR, we recognized expenses of \$4,317 and \$12,715, and \$3,778 and \$11,705 for the three and nine months ended September 30, 2010 and 2009, respectively. These amounts are included in general and administrative expenses in our condensed consolidated statements of income. In connection with our property management agreement with RMR, we recognized expenses of \$561 and \$1,665, and \$388 and \$993 for the three and nine months ended September 30, 2010 and 2009, respectively. These amounts are included in property operating expenses in our condensed consolidated statements of income.

As of September 30, 2010, we have invested \$5,209 in Affiliates Insurance Company, or Affiliates Insurance, with RMR and other companies to which RMR provides management services. All of our trustees serve on the board of directors of Affiliates Insurance. At September 30, 2010, we owned approximately 14.29% of Affiliates Insurance. Although we own less than 20% of Affiliates Insurance, we use the equity method to account for this investment because we believe that we have significant influence over Affiliates Insurance because each of our trustees is a director of Affiliates Insurance. We carry this investment on our condensed consolidated balance sheets in other assets and at \$5,058 and \$5,000 as of September 30, 2010 and December 31, 2009, respectively. During the three and nine months ended September 30, 2010, we invested an additional \$32 and \$76, respectively, in Affiliates Insurance. During the three and nine months ended September 30, 2010, we recognized earnings and losses of approximately \$35 and \$(17), respectively, related to this investment. In June 2010, we, RMR and other companies to which RMR provides management services purchased property insurance pursuant to an insurance program arranged by Affiliates Insurance. Our annual premiums for this property insurance are expected to be approximately \$275. We are currently investigating the possibilities to expand our insurance relationships with Affiliates Insurance to include other types of insurance.

For more information about our related person transactions, including our dealings with Five Star, RMR, Affiliates Insurance, our Managing Trustees and their affiliates and about the risks which may arise as a result of these and other related person transactions, please see our Annual Report and our other filings made with the SEC, and, in particular, the sections captioned Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations Related Person Transactions in our Annual Report, and the section captioned Related Person Transactions and the Company Review of Such Transactions in our Proxy Statement dated February 22, 2010 relating to our 2010 Annual Meeting of Shareholders and in Item 1.01 in our Current Report on Form 8-K filed with the SEC on January 13, 2010.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with our condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q and our Annual Report.

PORTFOLIO OVERVIEW

The following tables present an overview of our portfolio (dollars in thousands except per unit/square foot):

(As of September 30, 2010)	Number of Properties	Number of Units/Beds or Square Feet	Investment Carrying Value (1)	% of Investment	Annualized Current Rent (2)	% of Annualized Current Rent
<u>Facility Type</u>						
Independent living communities (3)	43	11,524		33.5%		33.4%
			\$ 1,133,275		\$ 112,715	
Assisted living facilities (3)	131	9,342	1,033,319	30.6%	95,490	28.2%
Skilled nursing facilities (3)	52	5,514	225,354	6.7%	20,058	5.9%
Rehabilitation hospitals	2	364	67,577	2.0%	10,203	3.0%
Wellness centers	10	812,000 sq. ft.	180,017	5.3%	17,069	5.0%
MOBs	60	3,037,874 sq. ft.	739,076	21.9%	83,047	24.5%
Total	298		\$ 3,378,618	100.0%	\$ 338,582	100.0%
<u>Tenant / Operator</u>						
Five Star (Lease No. 1)	88	6,421	\$ 631,183	18.7%	\$ 54,140	16.1%
Five Star (Lease No. 2)	46	5,885	510,466	15.1%	50,222	14.8%
Five Star (Lease No. 3)	28	5,618	628,919	18.6%	62,805	18.5%
Five Star (Lease No. 4)	26	2,720	253,576	7.5%	23,234	6.9%
Sunrise / Marriott (4)	14	4,091	325,165	9.6%	32,684	9.7%
Brookdale	18	894	61,122	1.8%	8,449	2.5%
6 private companies (combined)	8	1,115	49,094	1.5%	6,932	2.0%
Wellness centers	10	812,000 sq. ft.	180,017	5.3%	17,069	5.0%
Multi-tenant MOBs	60	3,037,874 sq. ft.	739,076	21.9%	83,047	24.5%
Total	298		\$ 3,378,618	100.0%	\$ 338,582	100.0%

Tenant Operating Statistics (5)

	Rent Coverage		Occupancy		Annualized Rental Income per Living Unit, Bed or Square Foot (6)	
	2010	2009	2010	2009	2010	2009
Five Star (Lease No. 1)	1.32x	1.25x	88%	88%	\$ 8,432	\$ 7,649
Five Star (Lease No. 2) (7)	1.32x	1.28x	82%	84%	\$ 7,249	\$ 6,904
Five Star (Lease No. 3)	1.49x	1.58x	88%	91%	\$ 11,179	\$ 10,958
Five Star (Lease No. 4)	1.11x	1.13x	84%	87%	\$ 8,542	\$ 8,592
Sunrise / Marriott (4)	1.35x	1.43x	89%	90%	\$ 7,989	\$ 7,924

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Brookdale	2.13x	2.10x	92%	93%	\$	9,451	\$	9,142
6 private companies (combined)	2.15x	1.87x	83%	82%	\$	6,217	\$	6,187
Wellness centers (8)	2.21x	2.36x	100%	100%		NA		NA
Multi-tenant MOBs (9)	NA	NA	97%	99%	\$	27	\$	28

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**Tenant Operating Statistics (continued) (5)**

	Short and Long Term Residential Care Facilities Percentage of Operating Revenue Sources					
	Private Pay (10)		Medicare		Medicaid	
	2010	2009	2010	2009	2010	2009
Five Star (Lease No. 1)	64%	61%	12%	14%	24%	25%
Five Star (Lease No. 2)	52%	53%	33%	32%	15%	15%
Five Star (Lease No. 3)	87%	87%	12%	12%	1%	1%
Five Star (Lease No. 4)	66%	68%	14%	13%	20%	19%
Sunrise / Marriott (4)	74%	66%	22%	30%	4%	4%
Brookdale	99%	99%			1%	1%
6 private companies (combined)	23%	24%	24%	23%	53%	53%

(1) Amounts are before depreciation, but after impairment write downs, if any.

(2) Annualized rent is as of September 30, 2010.

(3) Properties are categorized by the type of living units or beds which constitute a majority of the living units or beds at the property.

(4) Marriott International, Inc. guarantees this lease.

(5) All tenant operating data presented are based upon the operating results provided by our tenants for the 12 months ended June 30, 2010 and 2009, or the most recent prior period for which tenant operating results are available to us. Rent coverage is calculated as operating cash flow from our tenants' operations of our properties, before subordinated charges, divided by minimum rents payable to us. We have not independently verified our tenants' operating data. The table excludes data for periods prior to our ownership of some of these properties.

(6) Represents annualized rent by lease divided by the number of living units, beds or square feet leased at September 30, 2010 and 2009.

(7) Annualized rental income per living unit, bed or square foot excludes the two rehabilitation hospitals because these properties have extensive clinic space for services to both overnight patients and patients who receive treatment and do not stay overnight, and these properties are not comparable to residential senior living properties.

(8) Annualized rental income per living unit, bed or square foot excludes the wellness centers because these properties have extensive indoor and outdoor recreation space which is not comparable to properties where rent is based on interior space only.

(9) Our MOB leases include both triple net leases where, in addition to paying fixed rents, the tenants assume the obligation to operate and maintain the properties at their expense, and net and modified gross leases where we are responsible to operate and maintain the properties and we charge tenants for some or all of the property operating costs. A small percentage of our MOB leases are so-called "full-service" leases where we receive fixed rent from our tenants and no reimbursement for our property operating costs.

(10) Private pay excludes revenues from the Medicare and Medicaid programs.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

The following tables set forth information regarding our lease expirations as of September 30, 2010 (dollars in thousands):

Year	Short and Long Term Residential Care Facilities	Annualized Rent		Total	Percent of Total Annualized Current Rent Expiring	Cumulative Percentage of Annualized Current Rent Expiring
		MOBs	Wellness Centers			
2010	\$	\$ 282	\$	\$ 282	0.1%	0.1%
2011		2,228		2,228	0.7%	0.8%
2012		6,097		6,097	1.8%	2.6%
2013	32,684	3,754		36,438	10.7%	13.3%
2014		4,357		4,357	1.3%	14.6%
2015	3,437	6,248		9,685	2.9%	17.5%
2016	2,895	6,995		9,890	2.9%	20.4%
2017	31,682	1,753		33,435	9.9%	30.3%
2018		3,500		3,500	1.0%	31.3%
2019 and thereafter	167,768	47,833	17,069	232,670	68.7%	100.0%
Total	\$ 238,466	\$ 83,047	\$ 17,069	\$ 338,582	100.0%	

Average remaining lease term for all properties (weighted by rent): 12.0 years

Year	Short and Long Term Residential Care Facilities	Number of Tenants		Total	Percent of Total Number of Tenants Expiring	Cumulative Percentage of Number of Tenants Expiring
		MOBs	Wellness Centers			
2010		12		12	5.1%	5.1%
2011		24		24	10.3%	15.4%
2012		39		39	16.7%	32.1%
2013	1	20		21	9.0%	41.1%
2014		28		28	12.0%	53.1%
2015	3	25		28	12.0%	65.1%
2016	2	19		21	9.0%	74.1%
2017	2	14		16	6.8%	80.9%
2018		12		12	5.1%	86.0%
2019 and thereafter	4	27	2	33	14.0%	100.0%
Total	12	220	2	234	100.0%	

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Number of Living Units or Beds or Square Feet with Leases Expiring

Year	Living Units or Beds			Square Feet				
	Short and Long Term Residential Care Facilities (Units/Beds)	Percent of Total Living Units or Beds Expiring	Cumulative Percentage of Total Living Units or Beds Expiring	MOBs (Square Feet)	Wellness Centers (Square Feet)	Total Square Feet	Percent of Total Square Feet Expiring	Cumulative Percent of Total Square Feet Expiring
2010		0.0%	0.0%	7,328		7,328	0.2%	0.2%
2011		0.0%	0.0%	65,949		65,949	1.7%	1.9%
2012		0.0%	0.0%	291,480		291,480	7.7%	9.6%
2013	4,091	15.3%	15.3%	143,819		143,819	3.8%	13.4%
2014		0.0%	15.3%	137,915		137,915	3.7%	17.1%
2015	423	1.6%	16.9%	266,106		266,106	7.1%	24.2%
2016	517	1.9%	18.8%	331,414		331,414	8.8%	33.0%
2017	3,614	13.5%	32.3%	48,361		48,361	1.3%	34.3%
2018		0.0%	32.3%	101,197		101,197	2.7%	37.0%
2019 and thereafter	18,099	67.7%	100.0%	1,568,536	812,000	2,380,536	63.0%	100.0%
Total	26,744	100.0%		2,962,105	812,000	3,774,105	100.0%	

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS

Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009:

	2010	2009	Change	% Change
	(dollars in thousands, except per share amounts)			
Rental Income:				
Short and long term residential care facilities	\$ 57,315	\$ 54,401	\$ 2,914	5.4%
MOB	19,743	13,706	6,037	44.0%
All Other	3,903	3,903		
Total rental income	80,961	72,010	8,951	12.4%
Expenses:				
Depreciation	22,505	19,689	2,816	14.3%
General and administrative	5,549	5,192	357	6.9%
Property operating expenses	4,595	4,112	483	11.7%
Acquisition related costs	286	517	(231)	(44.7)%
Total expenses	32,935	29,510	3,425	11.6%
Operating income	48,026	42,500	5,526	13.0%
Interest and other income	203	355	(152)	(42.8)%
Interest expense	(20,226)	(15,949)	(4,277)	(26.8)%
Impairment of assets		(11,249)	11,249	
Gain on sale of properties	109		109	
Equity in earnings (losses) of an investee	35	(23)	58	252.2%
Income before income tax expense	28,147	15,634	12,513	80.0%
Income tax expense	(69)	(69)		
Net income	\$ 28,078	\$ 15,565	\$ 12,513	80.4%
Weighted average shares outstanding	127,423	121,665	5,758	4.7%
Net income per share	\$ 0.22	\$ 0.13	\$ 0.09	69.2%

Rental income. Rental income for our short and long term residential care facilities segment increased because of rents from 11 facilities we acquired since July 1, 2009, offset by a reduction in rental income resulting from the sale of six facilities since July 1, 2009. Rental income for our MOB segment increased because of rents from 21 MOBs we acquired since July 1, 2009, offset by a reduction in rental income resulting from the sale of one MOB since July 1, 2009.

Total expenses. Depreciation expense for the period increased because of our property acquisitions since July 1, 2009. General and administrative expenses also increased in the third quarter of 2010 principally due to our acquisitions since July 1, 2009. The increase in property operating expenses for the quarter ended September 30, 2010 is the result of our acquisitions of 21 MOBs since July 1, 2009 and principally includes expenses related to real estate taxes, utilities, insurance, cleaning costs and property management fees paid to RMR.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Interest expense. Interest expense increased because of interest on our \$512.9 million Federal National Mortgage Association, or FNMA, mortgage financing entered in August 2009, the amortization of \$13.6 million of deferred financing fees incurred in connection with this mortgage financing and the sale of \$200.0 million of unsecured senior notes with an interest rate of 6.75% in April 2010. These increases were offset by reduced interest because of the redemption of all \$97.5 million of our 7.875% unsecured senior notes due 2015 in May 2010 and lesser amounts outstanding under our revolving credit facility. Our weighted average balance outstanding and interest rate under our revolving credit facility was \$261,000 and 1.1%, and \$90.4 million and 1.1%, for the three months ended September 30, 2010 and 2009, respectively.

Impairment of assets. During the three months ended September 30, 2009, we recognized an impairment of assets charge of approximately \$11.2 million related to eight properties to reduce the carrying value of these properties to their estimated sales price less costs to sell.

Gain on sale of properties. In August 2010, we sold four skilled nursing facilities for an aggregate sales price of approximately \$1.5 million. We recognized a gain on sale of these properties of approximately \$109,000. These properties were leased to Five Star.

Net income. Net income and net income per share increased because of the changes in revenues and expenses described above.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009:

	2010	2009	Change	% Change
	(dollars in thousands, except per share amounts)			
Rental Income:				
Short and long term residential care facilities	\$ 171,479	\$ 162,920	\$ 8,559	5.3%
MOB	58,986	35,157	23,829	67.8%
All Other	11,708	11,708		
Total rental income	242,173	209,785	32,388	15.4%
Expenses:				
Depreciation	67,139	56,713	10,426	18.4%
General and administrative	16,463	14,999	1,464	9.8%
Property operating expenses	13,114	10,286	2,828	27.5%
Acquisition related costs	725	1,911	(1,186)	(62.1)%
Total expenses	97,441	83,909	13,532	16.1%
Operating income	144,732	125,876	18,856	15.0%
Interest and other income	703	750	(47)	(6.3)%
Interest expense	(59,155)	(37,432)	(21,723)	(58.0)%
Loss on early extinguishment of debt	(2,433)		(2,433)	
Impairment of assets	(1,095)	(11,249)	10,154	90.3%
Gain on sale of properties	109		109	
Equity in losses of an investee	(17)	(132)	115	87.1%
Income before income tax expense	82,844	77,813	5,031	6.5%
Income tax expense	(223)	(204)	(19)	(9.3)%
Net income	\$ 82,621	\$ 77,609	\$ 5,012	6.5%
Weighted average shares outstanding	127,404	120,005	7,399	6.2%
Net income per share	\$ 0.65	\$ 0.65		

Rental income. Rental income for our short and long term residential care facilities segment increased because of rents from 11 facilities we acquired since January 1, 2009, offset by a reduction in rental income resulting from the sale of two facilities during 2009 and four facilities during 2010. Rental income for our MOB segment increased because of rents from 24 MOBs we acquired since January 1, 2009, offset by a reduction in rental income resulting from the sale of two MOBs during 2009.

Total expenses. Depreciation expense for the period increased because of our property acquisitions since January 1, 2009. General and administrative expenses also increased during the nine months ended September 30, 2010 principally due to our acquisitions since January 1, 2009. The increase in property operating expenses for the nine months ended September 30, 2010 is the result of our acquisition of 24 MOBs since January 1, 2009 and principally includes expenses related to real estate taxes, utilities, insurance, cleaning costs and property management fees paid to RMR.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Interest expense. Interest expense increased because of interest on our \$512.9 million FNMA mortgage financing entered in August 2009, the amortization of \$13.6 million of deferred financing fees incurred in connection with this mortgage financing and the sale of \$200.0 million of unsecured senior notes with an interest rate of 6.75% in April 2010. These increases were offset by reduced interest because of the redemption of all \$97.5 million of our 7.875% unsecured senior notes due 2015 in May 2010 and lesser amounts outstanding under our revolving credit facility at lower interest rates. Our weighted average balance outstanding and interest rate under our revolving credit facility was \$22.2 million and 1.1%, and \$169.2 million and 1.3%, for the nine months ended September 30, 2010 and 2009, respectively.

Loss on early extinguishment of debt. In May 2010, we redeemed all \$97.5 million of our outstanding 7.875% senior notes due 2015. As a result of this redemption, we recorded a loss on early extinguishment of debt of \$2.4 million consisting of the debt prepayment premium of approximately \$1.3 million and the write off of unamortized deferred financing fees of approximately \$1.1 million.

Impairment of assets. During the nine months ended September 30, 2010, we recognized an impairment of assets charge of approximately \$1.1 million related to five properties, four of which were sold in August 2010, to reduce the carrying value of these properties to their estimated sale prices less costs to sell. During the nine months ended September 30, 2009, we recognized an impairment of assets charge of approximately \$11.2 million related to eight properties to reduce the carrying value of these properties to their estimated sales price less costs to sell.

Gain on sale of properties. In August 2010, we sold four skilled nursing facilities for an aggregate sales price of approximately \$1.5 million. We recognized a gain on sale of these properties of approximately \$109,000. These properties were leased to Five Star.

Net income. Net income increased because of the changes in revenues and expenses described above. Net income per share did not change since both our weighted average number of shares outstanding (resulting from our issuances of common shares in February and September 2009) and our net income increased.

LIQUIDITY AND CAPITAL RESOURCES

Our principal source of funds to pay operating expenses, debt service and distributions to shareholders is rental income from our properties. We believe that our operating cash flow will be sufficient to meet our operating expenses and debt service and pay distributions on our shares for the foreseeable future. Our future cash flows from operating activities will depend primarily upon our ability to:

- maintain or improve the occupancy of, and the current rental rates at, our properties;
- control operating cost increases at our MOB properties; and

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- purchase additional properties of any type which produce cash flows in excess of our cost of acquisition capital and property operating expenses.

Our Operating Liquidity and Resources

We generally receive minimum rents monthly or quarterly from our tenants and we receive percentage rents from our residential facility tenants monthly, quarterly or annually. During the nine months ended September 30, 2010, we generated \$161.4 million of cash from operations and at September 30, 2010, we had \$8.5 million of cash and cash equivalents.

Our Investment and Financing Liquidity and Resources

At September 30, 2010, we had \$8.5 million of cash and cash equivalents and \$538.0 million available under our revolving credit facility. We expect to use cash balances, borrowings under our revolving credit facility and net proceeds of offerings of equity or debt securities to fund future working capital requirements, property acquisitions and expenditures related to the repair, maintenance or renovation of our properties.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

In order to fund acquisitions and to accommodate cash needs that may result from timing differences between our receipts of rents and our need or desire to pay operating expenses and distributions to our shareholders, we maintain a revolving credit facility with a group of institutional lenders. This revolving credit facility permits us to borrow up to \$550.0 million. Borrowings under our revolving credit facility are unsecured. We may borrow, repay and reborrow funds until maturity, and no principal repayment is due until maturity. We pay interest on borrowings under the revolving credit facility at LIBOR plus a premium. This facility matures in December 2010. Subject to certain conditions, this credit facility's maturity date can be extended at our option to December 31, 2011 upon our payment of a fee. We currently intend to exercise this one year extension option. At September 30, 2010, the weighted average interest rate payable on our revolving credit facility was 1.1%. As of September 30, 2010 and November 1, 2010, we had \$12.0 million and \$15.0 million, respectively, outstanding under this credit facility.

When significant amounts are outstanding under our revolving credit facility or as the maturity dates of our revolving credit facility and term debts approach, we will explore alternatives for the repayment of amounts due. Such alternatives may include incurring additional debt and issuing new equity securities. We have an effective shelf registration statement that allows us to issue public securities on an expedited basis, but it does not assure that there will be buyers for such securities.

In April 2010, we sold \$200.0 million of senior unsecured notes. The notes require interest at a fixed rate of 6.75% per annum and are due in 2020. Net proceeds from the sale of the notes, after underwriting discounts and other expenses, were approximately \$195.0 million. Interest on the notes is payable semi-annually in arrears. No principal payments are due until maturity. We used a portion of the net proceeds of this offering to repay \$58.0 million in borrowings under our revolving credit facility, to fund the redemption of all \$97.5 million of our outstanding 7.875% senior notes due 2015 and for general business purposes, including funding the acquisitions described below.

As described above, in April 2010, we called all of our outstanding 7.875% senior notes due 2015 for redemption on May 17, 2010. As a result of this redemption, we recorded a loss on early extinguishment of debt of approximately \$2.4 million consisting of the debt prepayment premium of approximately \$1.3 million and the write off of unamortized deferred financing fees of approximately \$1.1 million.

In April 2010, we acquired an MOB with 14,695 square feet located in Colorado for approximately \$4.5 million, excluding closing costs. This property is 100% leased to Clear Creek Surgery Center LLC for approximately 9.8 years. We funded this acquisition using cash on hand and by assuming a mortgage loan for approximately \$2.5 million at interest of 6.73% per annum.

In June 2010, we acquired an MOB with 55,800 square feet located in Texas for approximately \$12.2 million, excluding closing costs. This property is 100% leased to Covenant Health System for approximately 14.0 years. We funded this acquisition using cash on hand.

In August 2010, we sold four skilled nursing facilities located in Nebraska with an aggregate 196 licensed beds for an aggregate sales price of approximately \$1.5 million. We recognized a gain on sale of these properties of approximately \$109,000. These properties were leased to Five Star.

In September 2010, we acquired one MOB with 64,860 square feet located in Buffalo Grove (Chicago), IL for approximately \$18.4 million, excluding closing costs. This property is 88% leased to seven tenants for weighted (by rents) average lease term of approximately 7.5 years.

We funded this acquisition using cash on hand.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

In September 2010, we acquired another MOB with 38,030 square feet located in Conyers (Atlanta), GA for approximately \$9.8 million, excluding closing costs. This property is 91% leased to seven tenants for weighted (by rents) average lease term of approximately 8.3 years. We funded this acquisition using cash on hand and borrowings under our revolving credit facility.

During the three and nine months ended September 30, 2010, pursuant to the terms of our existing leases with Five Star, we purchased \$8.0 million and \$23.8 million, respectively, of improvements made to our properties leased to Five Star, and, as a result, the annual rent payable to us by Five Star was increased by approximately \$638,300 and \$1.9 million, respectively.

Subsequent to September 30, 2010, we acquired one MOB with 58,605 square feet located in Conroe (Houston), TX for approximately \$15.0 million, excluding closing costs. This property is 100% leased to Montgomery County Management Company, LLC for approximately 13.8 years. We funded this acquisition using cash on hand and borrowings under our revolving credit facility.

While we believe we will have access to various types of financings, including debt or equity, to fund our future acquisitions and to pay our debts and other obligations, there can be no assurance that we will be able to complete any debt or equity offerings or that our cost of any future financings will be reasonable. Also, the current market conditions have led to increased credit spreads which, if they continue, may result in increased interest costs when we renew our revolving credit facility. These interest cost increases could have a material and adverse impact on our results of operations and financial condition.

On October 4, 2010, we declared a quarterly distribution of \$0.37 per common share, or \$47.2 million, to our common shareholders for the quarter ended September 30, 2010. This distribution will be paid to shareholders on or about November 12, 2010, using cash on hand and borrowings under our revolving credit facility, if necessary.

As of November 1, 2010, we have no off balance sheet arrangements, commercial paper, derivatives, swaps, hedges, joint ventures or partnerships, other than interest rate caps in connection with our FNMA mortgage loan.

Debt Covenants

Our principal debt obligations at September 30, 2010 were our unsecured revolving credit facility, two public issues of unsecured senior notes totaling \$422.8 million and \$641.6 million of mortgages secured by 62 of our properties. Our unsecured senior notes are governed by an indenture. The indenture for our unsecured senior notes and related supplements and our revolving credit facility contain a number of covenants which restrict our ability to incur debts, including debts secured by mortgages on our properties in excess of calculated amounts, require us to maintain a minimum net worth, restrict our ability to make distributions under certain circumstances and generally require us to maintain certain other financial ratios. As of September 30, 2010, we believe we were in compliance with all of the covenants under our indenture and related supplements, our revolving credit facility and our other debt obligations.

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None of our indenture and related supplements, our revolving credit facility or our other debt obligations contain provisions for acceleration which could be triggered by our debt ratings. However, in certain circumstances, our revolving credit facility uses our senior debt rating to determine the fees and the interest rate payable.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Our public debt indenture and related supplements contain cross default provisions to any other debts of at least \$10.0 million or, with respect to certain notes under such indenture and supplements, higher amounts. Similarly, our revolving credit facility contains a cross default provision to any other debts of \$25.0 million or more that are recourse debts and to any other debts of \$75.0 million or more that are non-recourse debts. Any termination of our business management agreement with RMR would cause a default under our revolving credit facility, if not approved by a majority of our lenders.

Related Person Transactions

Five Star is our largest tenant and it is our former subsidiary. We beneficially own more than 9% of Five Star's common shares. RMR provides management services to both us and Five Star. Five Star pays us minimum rent plus percentage rent based on increases in gross revenues at certain properties. As of September 30, 2010, we leased 186 senior living communities and two rehabilitation hospitals to Five Star. Five Star's total minimum annual rent payable to us under those leases as of September 30, 2010 was \$186.1 million, excluding percentage rent based on increases in gross revenues at certain properties. We recognized rent from Five Star in the amount of \$138.7 million and \$130.4 million for the nine months ended September 30, 2010 and 2009, respectively, and as of September 30, 2010 and December 31, 2009, our rents receivable from Five Star were \$16.6 million and \$16.5 million, respectively, and are included in other assets on our condensed consolidated balance sheets. During the three and nine months ended September 30, 2010, we purchased \$8.0 million and \$23.8 million, respectively, of improvements made to our properties that are leased to Five Star. We used cash on hand to fund these purchases. As a result of these purchases, the annual rent payable to us by Five Star increased by approximately \$638,300 and \$1.9 million, respectively. In August 2010, we sold four skilled nursing facilities located in Nebraska with an aggregate 196 licensed beds for \$1.5 million that were leased to Five Star and recognized a gain on sale of approximately \$109,000. Additional information regarding our leases with Five Star appears in our Annual Report under the captions "Business Tenants" and "Business Lease Terms".

We have no employees. Instead, services that might be provided to us by employees are provided to us by RMR. RMR provides both business and property management services to us under a business management agreement and a property management agreement. There have been no changes in the terms of our agreements with RMR as described in our Annual Report. During the three months ended September 30, 2010 and 2009, our fees to RMR under these agreements were \$4.9 million and \$4.2 million, respectively. During the nine month periods ended September 30, 2010 and 2009, these fees totaled \$14.4 million and \$12.7 million, respectively.

As of September 30, 2010, we have invested approximately \$5.2 million in Affiliates Insurance, an Indiana licensed insurance company organized by RMR and other companies to which RMR provides management services. We own 14.29% of Affiliates Insurance. All of our trustees are also directors of Affiliates Insurance and RMR provides certain management services to Affiliates Insurance. During the three and nine months ended September 30, 2010, we recognized earnings and losses of approximately \$35,000 and \$(17,000), respectively, related to this investment. In June 2010, we, RMR and other companies to which RMR provides management services purchased property insurance pursuant to an insurance program arranged by Affiliates Insurance. Our annual premiums for this property insurance are expected to be approximately \$275,000. We are currently investigating the possibilities to expand our insurance relationships with Affiliates Insurance.

For more information about our related person transactions, including our dealings with Five Star, Affiliates Insurance, RMR, our Managing Trustees and their affiliates and about the risks which may arise as a result of these and other related person transactions, please see our Annual Report and our other filings made with the SEC, and in particular, the sections captioned "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations - Related Person".

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Transactions in the Annual Report and the section captioned "Related Person Transactions and Company Review of Such Transactions" in our Proxy Statement dated February 22, 2010 relating to our 2010 Annual Meeting of Shareholders and Item 1.01 in our Current Report on Form 8-K filed with the SEC on January 13, 2010.

Impact of Government Reimbursement

Approximately 87% of our current rents at our senior living properties come from properties where approximately 80% or more of the operating revenues are derived from residents who pay with their own private resources. The remaining 13% of our rents from our senior living properties come from properties where the revenues are more dependent upon Medicare and Medicaid programs. The operations of these Medicare and Medicaid dependent senior living properties currently produce sufficient cash flow to support our rent. However, as discussed in our Annual Report under the caption, "Business - Government Regulation and Reimbursement", we expect that Medicare and Medicaid rates paid to our tenants may not increase in amounts sufficient to pay our tenants' increased operating costs, or that they may even decline. Also, the hospitals we lease to Five Star are heavily dependent upon Medicare revenues.

The Patient Protection and Affordable Care Act, or PPACA, enacted in March 2010, contains insurance changes, payment changes and healthcare delivery systems changes intended to expand access to health insurance coverage and reduce the growth of healthcare expenditures while simultaneously maintaining or improving the quality of healthcare. It is unclear how or if these somewhat contradictory goals can be achieved. Under PPACA, beginning in fiscal year 2012, the Medicare skilled nursing facility, or SNF, and inpatient rehabilitation facility, or IRF, market basket adjustments for inflation will be reduced by a productivity adjustment that may result in payment rates for a fiscal year being less than for the preceding fiscal year. PPACA also reduced the Medicare IRF market basket adjustment for inflation by 0.25% for fiscal year 2010, effective for discharges between April 1, 2010 and September 30, 2010, and for fiscal year 2011, which began October 1, 2010. Future IRF Medicare market basket adjustments will also be reduced by amounts ranging from 0.1% to 0.3% for fiscal years 2012 through 2016, and by 0.75% for fiscal years 2017 through 2019. PPACA also establishes an Independent Payment Advisory Board to submit legislative proposals to Congress and take other actions with a goal of reducing Medicare spending growth and includes various other provisions affecting Medicare and Medicaid providers, including enforcement reforms and increased funding for Medicare and Medicaid program integrity control initiatives.

The Centers for Medicare & Medicaid Services, or CMS, has adopted rules that took effect on October 1, 2010 that it estimates will increase aggregate Medicare payment rates for SNFs by approximately 1.7% overall in federal fiscal year 2011, as the result of an annual market basket increase of approximately 2.3% to account for inflation, reduced by a forecast error adjustment of 0.6%. CMS has also adopted rules that took effect on October 1, 2010 that it estimates will increase aggregate Medicare payment rates for IRFs by approximately 2.2% overall in federal fiscal year 2011, as the result of an annual market basket increase of approximately 2.5% to account for inflation, reduced by 0.25% in accordance with PPACA, and reduced by an 0.1% estimated decrease in IRF outlier payments for high cost cases.

Certain increases in federal payments to states for Medicaid programs, in effect from October 1, 2008, through December 31, 2010, pursuant to the American Recovery and Reinvestment Act of 2009, have been extended for six months through June 30, 2011, but at substantially reduced levels. The current increase is 6.2% for all states, with additional funds for states with increased unemployment. On August 10, 2010, President Obama signed the Education, Jobs and Medicaid Assistance Act, P.L. 111-226, which extends the payments at reduced levels of 3.2% for the three months that begin on January 1, 2011, and

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

1.2% for the three months that begin on March 1, 2011. The phasing out of these federal payments, combined with the anticipated slow recovery of state revenues, is expected to result in continued difficult state fiscal conditions. Some state budget deficits are likely to increase, and it is possible that certain states will reduce Medicaid payments to healthcare service providers like some of our tenants as part of an effort to balance their budgets.

We are unable to predict the impact on our tenants of the productivity adjustments or other PPACA provisions on future Medicare rates for SNFs and IRFs or the insurance, payment and healthcare delivery systems changes contained in and to be developed pursuant to PPACA. The changes implemented or to be implemented under PPACA could result in the failure of Medicare, Medicaid or private payment reimbursement rates to cover our tenants' increasing costs or other circumstances that could have a material adverse effect on our tenants' abilities to pay rent to us.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to risks associated with market changes in interest rates. We manage our exposure to this market risk by monitoring available financing alternatives. Our strategy to manage exposure to changes in interest rates is unchanged since December 31, 2009. Other than as described below, we do not foresee any significant changes in our exposure to fluctuations in interest rates or in how we manage this exposure in the future.

At September 30, 2010, our outstanding fixed rate debt included the following (dollars in thousands):

Debt	Principal Balance	Annual Interest Rate	Annual Interest Expense	Maturity	Interest Payments Due
Unsecured senior notes	\$ 225,000	8.625%	\$ 19,406	2012	Semi-Annually
Unsecured senior notes	200,000	6.75%	13,500	2020	Semi-Annually
Mortgages (1)	304,747	6.71%	20,449	2019	Monthly
Mortgages	48,775	6.54%	3,190	2017	Monthly
Mortgages	32,111	6.97%	2,238	2012	Monthly
Mortgage	14,545	6.91%	1,005	2013	Monthly
Mortgages	11,244	6.11%	687	2013	Monthly
Mortgage	4,327	6.50%	281	2013	Monthly
Mortgage	3,797	7.31%	278	2022	Monthly
Mortgage	2,434	6.73%	164	2012	Monthly
Mortgage	1,859	7.85%	146	2022	Monthly
Bonds	14,700	5.875%	864	2027	Semi-Annually
	\$ 863,539		\$ 62,208		

(1) Consists of fixed rate portion of our FNMA loan.

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No principal payments are due under our unsecured notes or bonds until maturity. Our mortgages require principal and interest payments through maturity pursuant to amortization schedules. Because these debts bear interest at a fixed rate, changes in market interest rates during the term of these debts will not affect our operating results. If these debts are refinanced at interest rates which are 10% higher or lower than shown above, our per annum interest cost would increase or decrease by approximately \$6.2 million.

Item 3. Quantitative and Qualitative Disclosures About Market Risk (continued)

Changes in market interest rates affect the fair value of our fixed rate debt obligations; increases in market interest rates decrease the fair value of our fixed rate debt, while decreases in market interest rates increase the fair value of our fixed rate debt. Based on the balances outstanding at September 30, 2010, and discounted cash flow analysis through the maturity date of our fixed rate debt obligations, a hypothetical immediate 10% change in interest rates would change the fair value of those obligations by approximately \$28.7 million.

Our unsecured senior notes and mortgages generally contain provisions that allow us to make repayment at par plus premiums which is generally designed to preserve a stated yield to the debt holder. Also, as we have previously done on occasion, we occasionally have the opportunity to purchase our outstanding debt by open market purchases. These prepayment rights and purchases may afford us the opportunity to mitigate the risks arising from changes in interest rates.

Our unsecured revolving credit facility accrues interest at floating rates and matures in December 2010. Subject to certain conditions, we can extend the maturity for one year upon payment of a fee. At September 30 and November 1, 2010, we had \$12.0 million and \$15.0 million, respectively, outstanding and \$538.0 million and \$535.0 million, respectively, available for borrowing under our revolving credit facility. We may make repayments and drawings under our revolving credit facility at any time without penalty. We borrow in U.S. dollars and borrowings under our revolving credit facility accrue interest at LIBOR plus a spread. Accordingly, we are vulnerable to changes in U.S. dollar based short term rates, specifically LIBOR. In addition, upon renewal or refinancing of our revolving credit facility, we are vulnerable to increases in credit spreads due to market conditions. Generally, a change in interest rates would not affect the value of our floating rate debt but would affect our operating results. If interest rates were to change gradually over time, the impact would be spread over time. Our exposure to fluctuations in floating interest rates will increase or decrease in the future with increases or decreases in the outstanding amount under our revolving credit facility or other floating rate debt. For example, the interest rate payable on our outstanding revolving indebtedness of \$12.0 million at September 30, 2010, was 1.05%. The following table presents the impact a 10% change in interest rates would have on our annual floating rate interest expense at September 30, 2010 (dollars in thousands):

Impact of Changes in Interest Rates				
	Interest Rate	Outstanding Debt	Total Interest Expense Per Year	
At September 30, 2010	1.05%	\$ 12,000	\$	126
10% reduction	0.95%	\$ 12,000	\$	114
10% increase	1.16%	\$ 12,000	\$	139

The foregoing table shows the impact of an immediate change in floating interest rates. If interest rates were to change gradually over time, the impact would be spread over time. Our exposure to fluctuations in floating interest rates will increase or decrease in the future with increases or decreases in the outstanding amount under our revolving credit facility or other floating rate debt. The following table presents the impact a 10% change in interest rates would have on our annual floating rate interest expense at September 30, 2010 if we had fully drawn our revolving credit facility (dollars in thousands):

Impact of Changes in Interest Rates				
	Interest Rate	Outstanding Debt	Total Interest Expense Per Year	
At September 30, 2010	1.05%	\$ 550,000	\$	5,775
10% reduction	0.95%	\$ 550,000	\$	5,225
10% increase	1.16%	\$ 550,000	\$	6,380

Item 3. Quantitative and Qualitative Disclosures About Market Risk (continued)

On August 4, 2009, we closed a FNMA mortgage financing for approximately \$512.9 million. A part of this borrowing is at a fixed interest rate, with a balance of \$304.7 million at September 30, 2010, and a part is at a floating rate calculated as a spread above LIBOR, with a balance of \$203.0 million at September 30, 2010. Generally, a change in market interest rates will not change the value of the floating rate part of this loan but will change the interest expense on the floating rate part of this loan. For example, at September 30, 2010, our effective weighted average annual interest rate payable on the outstanding variable amount of this loan was 6.41%. If interest rates increase by 10% of current rates, the impact upon us would be to change our interest expense as shown in the following table (dollars in thousands):

	Impact of Changes in Interest Rates		
	Interest Rate (1)	Outstanding Debt	Total Interest Expense Per Year
At September 30, 2010	6.41%	\$ 203,022	\$ 13,014
10% reduction	6.38%	\$ 203,022	\$ 12,953
10% increase	6.43%	\$ 203,022	\$ 13,054

(1) Our variable rate at September 30, 2010 consists of the one month LIBOR rate of 0.25% at September 30, 2010 plus a fixed premium. This table assumes a 10% interest rate change on the one month LIBOR rate.

Also, we have arranged with FNMA to cap, or limit, the interest rate increases which will impact the interest expense we will pay on the floating rate part of this loan. The net effect of this arrangement is that the maximum effective interest rate we may be required to pay on the full amount of this loan is 7.79% per annum.

We also have the option to prepay our FNMA obligations in order to mitigate the risks of refinancing or for other reasons. The fixed rate portion of this loan may be prepaid during the first 96 months of the loan term subject to our paying a standard make whole premium and thereafter for a declining fixed percent premium of the amount prepaid which is reduced to zero in the last six months of this ten year loan. The floating rate portion may be prepaid after one year for a fixed premium percent of the amount prepaid which is also reduced to zero in the last six months of this ten year loan. We may exercise these prepayment options to mitigate the risks inherent in this FNMA loan arising from changes in interest rates.

Item 4. Controls and Procedures.

As of the end of the period covered by this report, our management carried out an evaluation, under the supervision and with the participation of our Managing Trustees, President and Chief Operating Officer and Treasurer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to the Securities Exchange Act of 1934, as amended, Rules 13a-15 and 15d-15. Based upon that evaluation, our Managing Trustees, President and Chief Operating Officer and Treasurer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

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There have been no changes in our internal control over financial reporting during the quarter ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

WARNING CONCERNING FORWARD LOOKING STATEMENTS

THIS QUARTERLY REPORT ON FORM 10-Q CONTAINS STATEMENTS WHICH CONSTITUTE FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 AND OTHER FEDERAL SECURITIES LAWS. WHENEVER WE USE WORDS SUCH AS BELIEVE , EXPECT , ANTICIPATE , INTEND , PLAN , ESTIMATE OR SIMILAR EXPRESSIONS, WE ARE MAKING FORWARD LOOKING STATEMENTS. THESE FORWARD LOOKING STATEMENTS AND THEIR IMPLICATIONS ARE BASED UPON OUR PRESENT INTENT, BELIEFS OR EXPECTATIONS, BUT FORWARD LOOKING STATEMENTS AND THEIR IMPLICATIONS ARE NOT GUARANTEED TO OCCUR AND MAY NOT OCCUR. FORWARD LOOKING STATEMENTS IN THIS REPORT RELATE TO VARIOUS ASPECTS OF OUR BUSINESS, INCLUDING:

- OUR ABILITY TO PURCHASE OR SELL PROPERTIES,
- OUR ABILITY TO RAISE DEBT OR EQUITY CAPITAL,
- OUR ABILITY TO PAY INTEREST AND DEBT PRINCIPAL AND MAKE DISTRIBUTIONS, AND PAY THE AMOUNT OF ANY SUCH DISTRIBUTIONS,
- OUR ABILITY TO RETAIN OUR EXISTING TENANTS AND MAINTAIN CURRENT RENTAL RATES,
- OUR POLICIES AND PLANS REGARDING INVESTMENTS AND FINANCINGS,
- THE FUTURE AVAILABILITY OF BORROWINGS UNDER, AND OUR ABILITY TO RENEW OR REFINANCE, OUR REVOLVING CREDIT FACILITY,
- OUR TAX STATUS AS A REAL ESTATE INVESTMENT TRUST, OR REIT,
- OUR BELIEF THAT FIVE STAR, OUR FORMER SUBSIDIARY, WHICH IS RESPONSIBLE FOR 56% OF OUR CURRENT ANNUALIZED RENTS, HAS ADEQUATE FINANCIAL RESOURCES AND LIQUIDITY TO MEET ITS OBLIGATIONS TO US,
- OUR EXPECTATION THAT WE WILL BENEFIT FINANCIALLY BY PARTICIPATING IN THE INSURANCE COMPANY WITH RMR AND COMPANIES TO WHICH RMR PROVIDES MANAGEMENT SERVICES, AND

- OTHER MATTERS.

OUR ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE CONTAINED IN OR IMPLIED BY OUR FORWARD LOOKING STATEMENTS AS A RESULT OF VARIOUS FACTORS. FACTORS THAT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR FORWARD LOOKING STATEMENTS AND UPON OUR BUSINESS, RESULTS OF OPERATIONS, FINANCIAL CONDITION, FUNDS FROM OPERATIONS, CASH AVAILABLE FOR DISTRIBUTION, CASH FLOWS, LIQUIDITY AND PROSPECTS INCLUDE, BUT ARE NOT LIMITED TO:

- THE IMPACT OF CHANGES IN THE ECONOMY AND THE CAPITAL MARKETS ON US AND OUR TENANTS,
- THE IMPACT OF PPACA PROVISIONS ON OUR TENANTS AND THEIR ABILITY TO PAY RENT,
- ACTUAL AND POTENTIAL CONFLICTS OF INTEREST WITH FIVE STAR, OUR MANAGING TRUSTEES, AND RMR AND THEIR AFFILIATES,
- COMPLIANCE WITH, AND CHANGES TO, FEDERAL, STATE AND LOCAL LAWS AND REGULATIONS, ACCOUNTING RULES, TAX RATES AND SIMILAR MATTERS,

- LIMITATIONS IMPOSED ON OUR BUSINESS AND OUR ABILITY TO SATISFY COMPLEX RULES IN ORDER FOR US TO QUALIFY AS A REIT FOR U.S. FEDERAL INCOME TAX PURPOSES, AND
- COMPETITION WITHIN THE HEALTHCARE AND REAL ESTATE INDUSTRIES.

FOR EXAMPLE:

- FIVE STAR MAY EXPERIENCE FINANCIAL DIFFICULTIES AS A RESULT OF A NUMBER OF FACTORS, INCLUDING, BUT NOT LIMITED TO:
- CHANGES IN MEDICARE AND MEDICAID PAYMENTS, INCLUDING THOSE RESULTING FROM PPACA, WHICH COULD RESULT IN A REDUCTION OF RATES OR A FAILURE OF THESE RATES TO MATCH FIVE STAR S COST INCREASES,
- CHANGES IN REGULATIONS EFFECTING ITS OPERATIONS,
- CHANGES IN THE ECONOMY GENERALLY OR GOVERNMENTAL POLICIES WHICH REDUCE THE DEMAND FOR THE SERVICES FIVE STAR OFFERS,
- INCREASES IN INSURANCE AND TORT LIABILITY COSTS, AND
- INEFFECTIVE INTEGRATION OF NEW ACQUISITIONS.
- IF FIVE STAR S OPERATIONS BECOME UNPROFITABLE, FIVE STAR MAY BECOME UNABLE TO PAY OUR RENTS,
- OUR OTHER TENANTS MAY EXPERIENCE LOSSES AND BECOME UNABLE TO PAY OUR RENTS,
- OUR PARTICIPATION IN AFFILIATES INSURANCE INVOLVES POTENTIAL FINANCIAL RISKS AND REWARDS TYPICAL OF ANY START UP BUSINESS VENTURE AS WELL AS OTHER FINANCIAL RISKS AND REWARDS SPECIFIC TO INSURANCE COMPANIES. ACCORDINGLY, OUR EXPECTED FINANCIAL BENEFITS FROM OUR INITIAL OR FUTURE

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INVESTMENTS IN AFFILIATES INSURANCE MAY BE DELAYED OR MAY NOT OCCUR,

- IF THE AVAILABILITY OF DEBT CAPITAL BECOMES RESTRICTED, WE MAY BE UNABLE TO RENEW, REFINANCE OR REPAY OUR REVOLVING CREDIT FACILITY OR OUR OTHER DEBT OBLIGATIONS WHEN THEY BECOME DUE OR ON TERMS WHICH ARE AS FAVORABLE AS WE NOW HAVE,
- OUR ABILITY TO MAKE FUTURE DISTRIBUTIONS DEPENDS UPON A NUMBER OF FACTORS, INCLUDING OUR FUTURE EARNINGS. WE MAY BE UNABLE TO MAINTAIN OUR CURRENT RATE OF DISTRIBUTIONS AND FUTURE DISTRIBUTIONS MAY BE SUSPENDED OR PAID AT A LESSER RATE THAN THE DISTRIBUTIONS WE NOW PAY,
- OUR ABILITY TO GROW OUR BUSINESS AND INCREASE OUR DISTRIBUTIONS DEPENDS IN LARGE PART UPON OUR ABILITY TO BUY PROPERTIES AND LEASE THEM FOR RENTS WHICH EXCEED OUR CAPITAL COSTS. WE MAY BE UNABLE TO IDENTIFY PROPERTIES THAT WE WANT TO ACQUIRE OR TO NEGOTIATE ACCEPTABLE PURCHASE PRICES, ACQUISITION FINANCING OR LEASE TERMS FOR NEW PROPERTIES,
- SOME OF OUR TENANTS MAY NOT RENEW EXPIRING LEASES, AND WE MAY BE UNABLE TO LOCATE NEW TENANTS TO MAINTAIN THE HISTORICAL OCCUPANCY RATES OF, OR RENTS FROM, OUR PROPERTIES, AND
- RENTS THAT WE CAN CHARGE AT OUR PROPERTIES MAY DECLINE.

THESE RESULTS COULD OCCUR DUE TO MANY DIFFERENT CIRCUMSTANCES, SOME OF WHICH ARE BEYOND OUR CONTROL, SUCH AS THE APPLICATION AND INTERPRETATION OF RECENTLY PASSED OR NEW LAWS AFFECTING OUR BUSINESS, NATURAL DISASTERS OR CHANGES IN OUR TENANTS' REVENUES OR COSTS, OR CHANGES IN CAPITAL MARKETS OR THE ECONOMY GENERALLY.

THE INFORMATION CONTAINED ELSEWHERE IN OUR ANNUAL REPORT AND SUBSEQUENT DOCUMENTS FILED WITH THE SEC IDENTIFIES OTHER FACTORS THAT COULD CAUSE DIFFERENCES FROM OUR FORWARD LOOKING STATEMENTS. ALSO, OTHER IMPORTANT FACTORS THAT COULD CAUSE OUR ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE IN OUR FORWARD LOOKING STATEMENTS ARE DESCRIBED MORE FULLY UNDER "RISK FACTORS" IN OUR QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2010 AND IN OUR ANNUAL REPORT.

YOU SHOULD NOT PLACE UNDUE RELIANCE UPON OUR FORWARD LOOKING STATEMENTS.

EXCEPT AS REQUIRED BY LAW, WE DO NOT INTEND TO UPDATE OR CHANGE ANY FORWARD LOOKING STATEMENTS AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE.

STATEMENT CONCERNING LIMITED LIABILITY

THE AMENDED AND RESTATED DECLARATION OF TRUST ESTABLISHING SENIOR HOUSING PROPERTIES TRUST, DATED SEPTEMBER 20, 1999, AS AMENDED AND SUPPLEMENTED, AS FILED WITH THE STATE DEPARTMENT OF ASSESSMENTS AND TAXATION OF MARYLAND, PROVIDES THAT NO TRUSTEE, OFFICER, SHAREHOLDER, EMPLOYEE OR AGENT OF SENIOR HOUSING PROPERTIES TRUST SHALL BE HELD TO ANY PERSONAL LIABILITY, JOINTLY OR SEVERALLY, FOR ANY OBLIGATION OF, OR CLAIM AGAINST, SENIOR HOUSING PROPERTIES TRUST. ALL PERSONS DEALING WITH SENIOR HOUSING PROPERTIES TRUST IN ANY WAY SHALL LOOK ONLY TO THE ASSETS OF SENIOR HOUSING PROPERTIES TRUST FOR THE PAYMENT OF ANY SUM OR THE PERFORMANCE OF ANY OBLIGATION.

PART II. Other Information

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

As previously reported, on September 17, 2010, pursuant to our equity compensation plan, we granted an aggregate of 66,850 common shares of beneficial interest, par value \$0.01 per share, valued at \$24.31 per share, the closing price of our common shares on the NYSE on that day, to our officers and certain employees of our manager, RMR. We made these grants pursuant to an exemption from registration contained in Section 4(2) of the Securities Act.

Item 6. Exhibits.

10.1 Form of Restricted Share Agreement. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated September 21, 2010, filed with the SEC on September 21, 2010, File No. 001-15319)

10.2 Partial Termination of and Fourth Amendment to Amended and Restated Master Lease Agreement (Lease No. 1), dated as of August 1, 2010, among certain subsidiaries of the Company, as Landlord, and Five Star Quality Care Trust, as Tenant. *(Filed herewith)*

10.3 Partial Termination of and Second Amendment to Amended and Restated Master Lease Agreement (Lease No. 2), dated as of August 1, 2010, among certain subsidiaries of the Company, as Landlord, and certain subsidiaries of Five Star Quality Care, Inc., jointly and severally, as Tenant. *(Filed herewith)*

12.1 Computation of Ratio of Earnings to Fixed Charges. *(Filed herewith)*

31.1 Rule 13a-14(a) Certification. *(Filed herewith)*

31.2 Rule 13a-14(a) Certification. *(Filed herewith)*

31.3 Rule 13a-14(a) Certification. *(Filed herewith)*

31.4 Rule 13a-14(a) Certification. *(Filed herewith)*

32.1 Section 1350 Certification. *(Furnished herewith)*

101.1 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Cash Flows, and (iv) related notes to these financial statements, tagged as blocks of text. *(Furnished herewith)*

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SENIOR HOUSING PROPERTIES TRUST

By: */s/ David J. Hegarty*
David J. Hegarty
President and Chief Operating Officer
Dated: November 1, 2010

By: */s/ Richard A. Doyle*
Richard A. Doyle
Treasurer and Chief Financial Officer
(principal financial and accounting officer)
Dated: November 1, 2010